

TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Alternative Investments
Activity Status Report

ITEM NUMBER: 13

ATTACHMENT(S): 2

ACTION: _____

DATE OF MEETING: April 5, 2000

INFORMATION: X

PRESENTER(S): Mr. Desrochers

The table below contains Alternative Investment activity for the month of February 2000 and historical information for selected time periods.

	Month Ended 2/29/00	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$	\$ 760,000,000	\$ 829,500,000	\$ 3,388,746,213	\$ 4,487,279,069
Co-Investments	47,500,000	72,499,996	72,499,996	72,499,996	119,499,996
Secondaries	0	70,773,417	70,773,417	80,067,245	80,067,245
	\$ 47,500,000	\$ 903,273,413	\$ 972,773,413	\$ 3,541,313,454	\$ 4,686,846,310
<u>Contributions:</u>					
Partnerships	\$ 195,269,883	\$ 961,815,119	\$ 1,232,489,474	\$ 2,371,051,701	\$ 2,965,962,231
Co-Investments	17,500,000	43,166,685	43,166,685	43,166,685	90,166,685
Secondaries	2,510,000	60,382,402	60,521,845	68,144,231	68,494,231
Mgmt. Fee (Outside)	2,611,460	7,628,761	8,294,228	24,928,292	34,834,646
	\$ 217,891,343	\$ 1,072,992,966	\$ 1,344,472,232	\$ 2,507,290,908	\$ 3,159,457,793
<u>Distributions:</u>					
Cash	\$ 13,212,708	\$ 293,371,081	\$ 414,841,337	\$ 1,082,271,641	\$ 1,440,893,419
Stock	152,839,761	587,405,560	632,446,237	908,153,456	1,099,096,453
	\$ 166,052,469	\$ 880,776,642	\$ 1,047,287,573	\$ 1,990,425,097	\$ 2,539,989,873
Stock Sales	\$ 79,523,797	\$ 490,727,449	\$ 607,137,593	\$ 772,319,547	\$ 947,015,600

Attachment 1 provides an executive summary of action taken under delegation of authority for a \$17.5 million co-investment in AdvisorTech Corporation.

Attachment 2 provides an executive summary of action taken under delegation of authority for a \$30.0 million co-investment in Digital Access.

**CalSTRS
ALTERNATIVE INVESTMENTS**

J.H. Whitney IV
Co-Investment Opportunity in AdvisorTech Corporation

AdvisorTech Corporation

Action:	Commitment of \$18.0 million in a co-investment in AdvisorTech Corp. subject to the successful negotiations of legal terms and conditions. The investment will take the form of preferred securities.
Background:	The General Partners of J.H. Whitney IV introduced this co-investment opportunity to CalSTRS. CalSTRS has a \$100 million commitment to J.H. Whitney IV. A group of General Partners is raising a secondary financing for AdvisorTech Corporation which provides financial planning services to retail consumer on a global basis. KPMG is the Independent Fiduciary for this investment.
Analysis:	AdvisorTech Corp. is a new company formed by former senior management of Fidelity and Charles Schwab for the purpose of providing financial services on a global basis. The main idea is to leverage management's collective experience in the U.S. market and apply the lessons and expertise developed in the U.S. to developed countries in the world. There is considerable amount of deregulation occurring throughout the world, which is helping to create this opportunity. The company has commenced operations in Japan, which are meeting all expectations.
Investment Thesis:	<p>Staff is recommending a co-investment in AdvisorTech Corporation alongside J.H. Whitney IV for the following reasons:</p> <ul style="list-style-type: none">• Staff has identified J.H. Whitney as a Tier 1 Manager,• The AdvisorTech Corporation management team is very strong and is led by former senior executives of Charles Schwab and Fidelity,• The Company has been operating in Japan for over one year and is meeting or exceeding planned objectives,• There is a large global opportunity due to financial deregulation occurring in many countries as these countries try to emulate the U.S. success in the capital markets,
Policy Compliance:	This investment complies with the Alternative Investment Policies, which were approved in April 1999. Positive written recommendations by the Independent Fiduciary (KPMG) and Staff have been documented. The recommendations resulted after investment analysis and due diligence was conducted in the manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit \$18.0 million alongside J.H. Whitney IV to this round of financing for AdvisorTech Corp. CalSTRS' commitment is subject to the successful negotiation of legal terms and conditions.

By:

Richard Rose
Principal Investment Officer

Date:_____

Recommended by:

Real Desrochers
Director – Alternative Investments

Date:_____

Approved by:

Patrick Mitchell
Chief Investment Officer

Date:_____

Alternative Investments

EXECUTIVE SUMMARY OF ACTION TAKEN
UNDER DELEGATION OF AUTHORITY
Fleet (Chisholm), Spectrum, M/C Partners, CornerstoneDigital Access

Action: Commitment of \$30 million in a co-investment in Digital Access subject to the successful negotiation of legal terms and conditions. The investment will take the form of \$30 million in preferred securities and common equities. Investors made an \$8 million seed investment in December 1999. The CalSTRS' seed investment was \$666.7 thousand. Final commitments by investors were made in February 2000. CalSTRS' investment commitment grew from the original \$666.7 thousand to \$30 million.

Background: A group of General Partners have come together to raise an investment fund of \$451 million for the purpose of starting up a company to provide Broadband telephony, video, and data services to homes and businesses in select communities. Investors include:

Investors

- M/C Partners
- Providence Equity
- Spectrum
- Fleet (Chisholm)
- Cornerstone
- First Union
- Norwest
- Goldman Sachs
- CalSTRS

Total Commitment \$451 Million

The CalSTRS co-investment of \$30 million will be 6.66% of the total investment.

Plans are to have Digital Access become one of two broadband providers of video, telephony, and data in each of four selected markets.

INVESTMENT THESIS

The Digital Access investment is an investment in the telecom business on “the last mile”. This is the infrastructure, (hybrid fiber coax or HFC) that takes telephony, data services and video into the home and business on a bundled basis on one line. As soon as Digital Access can construct its system, they will be the first players in this space in the selected markets. The sponsors of Digital

Access expect the value of these assets to increase dramatically following completion of the project. Staff expects that this investment will attract a large number of takeout buyers.

Policy Compliance: This investment complies with the Alternative Investment Policies, which were approved in April 1999. Positive written recommendations by the Alternative Investment Advisor (Pathway Capital Management) for both the seed commitment and the final commitment have been documented. The recommendations resulted after investment analysis and due diligence were conducted in the manner as previously reviewed and approved by the Investment Committee.

Recommendation: Staff recommends that CalSTRS commit up to \$30 million to Digital Access. CalSTRS' commitment is subject to the successful negotiation of legal terms and conditions.

By:

Richard Rose
Principal Investment Officer

Date:_____

Recommended by:

Real Desrochers
Director – Alternative Investments

Date:_____

Approved by:

Patrick Mitchell
Chief Investment Officer

Date:_____